


AR80



AGT Data Systems Limited

**1970
ANNUAL
REPORT**



Digitized by the Internet Archive
in 2024 with funding from
University of Alberta Library

https://archive.org/details/AGTD4531_1970



AGT Data Systems Limited

OFFICERS

Gerald A. Wanless
President

Fredrick T. White
Executive Vice-President

Ronald C. Carroll
Vice-President

Harvey S. Gellman
Vice-President

David R. McCamus
Vice-President

Harry G. Porteous
Vice-President

Larry W. Shick
Vice-President

H. Roger Garland
Secretary-Treasurer

DIRECTORS

Ronald C. Carroll

Harvey S. Gellman

Helmut Lerchs

David R. McCamus

Robert A. McDougall

Frederick H. McNeil

George H. Montague

Larry W. Shick

Gerald A. Wanless

Fredrick T. White

HEAD OFFICE

74 Victoria Street, Toronto 210



A REPORT FROM THE PRESIDENT

Early in 1969, there was considerable enthusiasm for the prospects of the computer service industry in Canada. Many new companies were formed and a number of existing companies implemented extensive expansion programs in anticipation of a ready and enthusiastic market for computer-based services.

Since that time, most of these entries have been endeavouring to develop into viable business enterprises; a difficult task at best and one that traditionally seems to be underestimated.

During this building period in 1969, the industry became aware that the market demand for data processing services was somewhat elusive. Although the businessman was still interested in buying low cost computing capacity, his growing interest was in obtaining specific products to solve his information processing problems.

For some companies, this realization necessitated a change in strategy; for most, it resulted in a greater need for capital to develop these products. Those companies which did not have the skills to seek out, develop and market such products are experiencing difficulties in building a profitable revenue base. Compounding these industry business problems was a generally declining economic environment. One of the results has been vigorous competition for a much depressed market, forcing many companies into a strategy of getting business at any cost. With this unstable situation, the business community, not surprisingly, has been somewhat reluctant to commit itself. This "credibility gap" has caused many businessmen to lean toward the larger, traditional, manufacturer-based data processing service companies. Compounding this problem, a number of firms in the U.S. computer service industry have gone into bankruptcy, or been forced to merge.

AGT has been faced with many of these problems. Our strategy from the beginning was to develop specific industry-oriented products. This fact alone, perhaps more than any other, has allowed us to make progress during this uncertain climate. Additional capital was raised early in 1970, as the cost of product development and working capital requirements proved to be greater than anticipated. The sharing of development costs with industry and government proved to be difficult. The businessman is insisting, as a result of the unstable conditions in the industry, that products be fully developed and operational before he will consider buying.

In early spring, as the economic decline worsened, AGT's revenue growth began to fall below our forecasts. Business plans were revised and new objectives established. These changes necessitated reductions in staff, relocation of manpower and postponement of development projects which were financially unattractive in the near term. As a result, the loss for this year is significantly higher than forecast.

In spite of these business conditions, we continued to make progress towards establishing AGT as one of the country's leading data services organizations. Product acceptance, albeit on a somewhat reduced scale, has been most encouraging, resulting in a revenue growth from \$1,753,000 in 1968/69 to \$3,028,000 in 1969/70, assuring us of a solid continuing base in the future.

At the beginning of the fiscal year, we had just completed a number of acquisitions and concluded marketing arrangements with the Keydata Corporation and Systems Dimensions Limited. Our Keydata and SDL Divisions are now well established, each with a solid revenue base.

DCF Systems, our consulting division, has expanded while maintaining good profit margins.

Ruscom Logics, our manufacturing division, has successfully developed and marketed several specialized and unique product lines as well as obtaining important contracts for custom designed systems.

Data Security Services is providing regular service to many large firms, storing data in its maximum security vault.

While excellent progress has been made in many divisions, we experienced setbacks in others. ProConsul Computer Services, which provides computer-based services in the engineering and surveying areas, has been severely affected by the cutback in construction activity. We have reduced operations accordingly and must now await an upturn in this sector before initiating any expansion plans.

The Data Services Division experienced considerable operating difficulties with our in-house computer. However, toward the end of the year, new arrangements were made for computing equipment and we are already enjoying significant improvement in this area. Even in the face of these difficulties, data processing revenues increased from \$274,000 in 1968/69 to \$1,222,000 in 1969/70.

Our U.S. subsidiary in Seattle was hard hit by the economic recession on the West Coast, necessitating substantial revisions to the business plan. A monthly profit for this division is now indicated by the end of this calendar year.

We expect that revenues in the coming year will continue to increase as a result of the groundwork laid during 1969. All divisions are expected to reach a profitable operating level by the end of the 1970/71 fiscal year.

The effort put forth by all employees during this past difficult year has been truly outstanding. I am confident that 1970/71 will be AGT's most successful and exciting period of growth and development.

Gerald A. Wanless
President.



CONSOLIDATED STATEMENT OF LOSS
FOR THE YEAR ENDED JUNE 30, 1970
(with 1969 figures for comparison)

	1970	1969
REVENUE:		
Consulting fees	\$1,672,599	\$1,455,110
Data processing revenues	1,221,955	273,937
Manufacturing sales	133,263	23,930
Total revenue	<u>3,027,817</u>	<u>1,752,977</u>
EXPENSES:		
Salaries and employee benefits	3,279,350	1,407,868
General and administrative expenses	2,053,190	583,913
Total expenses	<u>5,332,540</u>	<u>1,991,781</u>
LOSS FROM OPERATIONS	<u>2,304,723</u>	<u>238,804</u>
OTHER INCOME (CHARGES):		
Investment income	80,783	27,060
Gain (loss) on disposal of fixed assets	(4,045)	1,949
	<u>76,738</u>	<u>29,009</u>
LOSS BEFORE INCOME TAXES	<u>2,227,985</u>	<u>209,795</u>
RECOVERY OF (PROVISION FOR) INCOME TAXES (Note 4):		
Current	4,683	1,210
Deferred	(13,766)	20,977
	<u>(9,083)</u>	<u>22,187</u>
LOSS BEFORE EXTRAORDINARY ITEMS	<u>2,237,068</u>	<u>187,608</u>
EXTRAORDINARY ITEMS:		
Organization and re-organization expenses written off	—	36,869
Adjustment of deferred income taxes (Note 4)	(20,900)	(12,600)
	<u>(20,900)</u>	<u>24,269</u>
LOSS BEFORE MINORITY INTEREST	<u>2,216,168</u>	<u>211,877</u>
MINORITY INTEREST IN LOSS	<u>28,553</u>	<u>—</u>
NET LOSS FOR THE YEAR	<u>\$2,187,615</u>	<u>\$ 211,877</u>

The accompanying notes on page 7 are an integral part of the financial statements.



ASSETS

	1970	1969
CURRENT ASSETS:		
Cash	\$ 157,973	\$ 58,720
Short-term investments	698,832	410,527
Accounts receivable:		
Trade	824,684	535,711
Other	41,783	33,034
Inventories - at the lower of cost or net realizable value	37,794	16,114
Income taxes recoverable	8,630	14,682
Prepaid expenses	8,254	17,709
Total current assets	<u>1,777,950</u>	<u>1,086,497</u>
LONG-TERM RECEIVABLE	<u>27,218</u>	<u>37,030</u>
FIXED ASSETS - at cost (Note 3)	628,946	317,451
Less accumulated depreciation and amortization	<u>106,226</u>	<u>51,063</u>
Net fixed assets	<u>522,720</u>	<u>266,388</u>
OTHER ASSETS:		
Excess of cost of shares of subsidiary over underlying net assets at date of acquisition (Note 1)	—	1,481,346
Franchise fees (Note 2)	280,000	—
Deferred development costs (Note 2)	<u>115,084</u>	<u>75,443</u>
Total other assets	<u>395,084</u>	<u>1,556,789</u>
TOTAL	<u><u>\$2,722,972</u></u>	<u><u>\$2,946,704</u></u>

Approved by the Board:

Gerald A. Wanless, Director

Fredrick T. White, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
CURRENT LIABILITIES:		
Bank indebtedness	\$ —	\$ 160,089
Accounts payable and accrued charges	546,247	196,208
Employee deductions	101,107	39,378
Advances received on contracts	442	18,905
Estimated income taxes payable	—	5,584
Total current liabilities	<u>647,796</u>	<u>420,164</u>
DEFERRED INCOME TAXES	—	7,134
MINORITY INTEREST IN FOREIGN SUBSIDIARY	<u>8,897</u>	<u>—</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Notes 1, 5, 6 and 7):		
Authorized:		
2,000,000 shares without nominal or par value		
Issued and fully paid:		
1,339,587 shares	6,037,298	2,780,168
Contributed surplus of subsidiary (no transactions during the year)	300,000	300,000
Deficit	(4,271,019)	(560,762)
Net shareholders' equity	<u>2,066,279</u>	<u>2,519,406</u>
TOTAL	<u>\$2,722,972</u>	<u>\$2,946,704</u>

AUDITORS' REPORT

To the Shareholders of
AGT Data Systems Limited:

We have examined the consolidated balance sheet of AGT Data Systems Limited and its subsidiaries as at June 30, 1970 and the consolidated statements of loss, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30, 1970
(with 1969 figures for comparison)

	1970	1969
SOURCE OF FUNDS:		
Issue of common stock	\$3,257,130	\$2,776,267
Minority interest in foreign subsidiary	37,450	—
Proceeds on disposal of fixed assets	16,645	5,043
Reduction in non-current receivable	9,812	—
Total funds provided	<u>3,321,037</u>	<u>2,781,310</u>
APPLICATION OF FUNDS:		
Funds applied to operations	2,070,808	159,214
Excess of cost of shares of subsidiary over underlying net assets at date of acquisition	41,296	1,481,346
Additions to fixed assets	346,340	227,574
Repayment of advances from shareholders	—	226,895
Deferred development costs	106,772	90,328
Franchise costs	292,000	—
Increase in non-current receivable	—	37,030
Reduction of long-term liability	—	6,400
Total funds applied	<u>2,857,216</u>	<u>2,228,787</u>
INCREASE IN WORKING CAPITAL FOR THE YEAR	<u>463,821</u>	<u>552,523</u>
WORKING CAPITAL AT BEGINNING OF THE YEAR	<u>666,333</u>	<u>113,810</u>
WORKING CAPITAL AT END OF THE YEAR	<u>\$1,130,154</u>	<u>\$ 666,333</u>

The accompanying notes on page 7 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED JUNE 30, 1970
(with 1969 figures for comparison)

	1970	1969
DEFICIT AT BEGINNING OF THE YEAR	<u>\$ 560,762</u>	<u>\$148,885</u>
ADD:		
Net loss for the year	2,187,615	211,877
Write-off of excess of cost of shares of subsidiaries over underlying net assets at date of acquisition (Note 1)	1,522,642	—
Goodwill written off	—	250,000
	<u>4,271,019</u>	<u>610,762</u>
DEDUCT:		
Forgiveness of debt by shareholders	—	50,000
DEFICIT AT END OF THE YEAR	<u>\$4,271,019</u>	<u>\$560,762</u>

The accompanying notes on page 7 are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of AGT Data Systems Limited and all of its subsidiary companies.

The acquisitions of certain of the subsidiaries have been accounted for on the pooling-of-interests basis and, accordingly, the value attributed to issued capital stock, in the amount of \$6,037,298, is net of a pooling adjustment of \$5,521,796 which reflects the stated value of the issued capital stock of such subsidiaries at date of acquisition.

The accounts of the remainder of the subsidiaries have been accounted for on the purchase-acquisition basis, and the excess cost of the shares of the subsidiaries over the underlying net assets at date of acquisition, of \$1,522,642, written off to deficit.

For the purposes of consolidation, the accounts of the foreign subsidiaries have been translated into Canadian dollars at historical rates, with the exception that current assets and current liabilities have been translated at the rate of exchange prevailing at June 30, 1970.

2. DEFERRED DEVELOPMENT COSTS AND FRANCHISE FEES

It is the company's policy to defer costs related to new product development where such projects have provided substantial assurance of future revenue generation. These deferred costs are amortized over the estimated useful life of the project, or two years, whichever is less, commencing in the first month of production. Research and development costs of a general nature are expensed in the period incurred. Expenses for the current year include amortization in the amount of \$67,131 (1969 - \$23,485).

The company holds franchise rights to certain processes and software packages at a total cost of \$292,000. These costs are amortized over the estimated useful life in each case. Expenses for the current year include amortization in the amount of \$12,000.

3. FIXED ASSETS

The major categories of fixed assets and accumulated depreciation and amortization at June 30, 1970 are as follows:

	Amount	Rates
Furniture, fixtures and equipment	\$385,736	10% straight-line
Leasehold improvements ..	239,023	Term of lease - straight-line
Motor vehicle	4,187	30% declining-balance
	<u>628,946</u>	
Less accumulated depreciation and amortization ..	<u>106,226</u>	
	<u>\$522,720</u>	

Expenses for the current year include depreciation and amortization in the amount of \$69,318 (1969 - \$24,862).

4. DEFERRED INCOME TAXES

The company and its subsidiaries have adopted the practice of recording deferred income taxes, with the exception that amounts so recorded do not reflect losses available to be carried forward. At June 30, 1970, there were losses of approximately \$2,523,500 available for application against future income.

Income taxes otherwise payable by a subsidiary for the current year, in the amount of \$20,900, have been eliminated by the application of prior years' losses carried forward. This elimination is reflected as an extraordinary item in the consolidated statement of loss.

5. CAPITAL STOCK

Changes in the company's capital stock are summarized as follows:

	Shares	Amount
Balance at June 30, 1969	1,118,520	\$2,780,168
Issued for cash	218,297	3,236,060
Share options exercised (Note 6) ...	2,770	21,070
Balance at June 30, 1970	<u>1,339,587</u>	<u>\$6,037,298</u>

6. SHARE OPTIONS

At June 30, 1970, the company has reserved 60,024 and 78,186 shares under 1968 Share Option Plan for Employees and 1969 Share Option Plan for Employees, respectively. Pursuant to these Plans, the company may grant options to full-time senior officers and employees, enabling them to purchase shares during the period ending March 31, 1974, at a price per share, under the 1968 Plan,

no less than the greater of \$7 or 90% of the market price (as determined under the 1968 Plan) on the day of grant of the option and, under the 1969 Plan, no less than the greater of \$15 or 90% of the market price (as determined under the 1969 Plan) on the day of grant of the option. The options may be exercised by the optionee in equal amounts in each year, over the term of the plan if the option was granted prior to June 25, 1970, and over the term of the option if granted after that date, both on a cumulative basis.

The share options outstanding under the Plans are summarized below:

	Number of Shares
1968 Plan:	
Authorized	<u>75,000</u>
Granted at \$7 per share (excluding cancelled options for 6,780 shares)	68,220
Exercised for \$104,832 (1970 - 2,560 shares for \$17,920)	<u>14,976</u>
Outstanding at June 30, 1970	<u>53,244</u>
1969 Plan:	
Authorized at June 30, 1969	50,000
Increase during the year	<u>30,000</u>
Authorized at June 30, 1970	<u>80,000</u>
Granted at \$15 per share (excluding cancelled options for 29,340 shares)	55,540
Exercised for \$27,210 (1970 - 210 shares for \$3,150)	<u>1,814</u>
Outstanding at June 30, 1970	<u>53,726</u>

On June 25, 1970, 50,000 shares were reserved under the 1970 Employee Payroll Investment Plan. Under the terms of this Plan, employees may utilize up to 10% of their remuneration to purchase shares at a price which is calculated on the basis of 85% of the market price (as determined under the Plan) during each calendar quarter. As at June 30, 1970, 1,297 shares have been issued under this Plan.

Under the terms of an agreement dated July 23, 1969, the Bank of Montreal holds an option, which expires on August 13, 1973, to purchase 50,000 shares as follows:

30,000 shares at \$15 per share up to July 31, 1971, and thereafter at the greater of \$15 or 90% of the market price per share; and, if exercised, a further 20,000 shares at the greater of \$15 or 90% of the market price per share.

The company has reserved 90,000 shares to cover its obligation under an agreement dated November 19, 1969. Pursuant to the agreement, employee-shareholders having a minority interest in a subsidiary may individually exchange their holdings in the subsidiary, in whole or in part, for up to 90,000 shares of the company on a formulated exchange rate basis on December 1, 1972, 1973, or 1974. The company, on or after December 1, 1974, may also require such an exchange on the same basis.

On July 29, 1970, 100,000 shares were reserved under the 1970 Incentive Share Option Plan for Managers. The company may, prior to June 30, 1973, grant options under this Plan to full-time senior officers and employees, enabling them to purchase 15,000 of such shares to March 31, 1974, and 85,000 of such shares to August 31, 1974, at a price per share no less than the greater of \$7 or 90% of the market price.

7. SHARES HELD IN ESCROW

At June 30, 1970, 831,600 shares of the company are held in escrow under the terms of eight escrow agreements.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers, as defined by the Ontario Securities Act, for the year amounted to \$218,244 (1969 - \$209,485), of which \$199,009 (1969 - \$156,075) represented remuneration of directors. All directors and senior officers who are remunerated by the company are full-time employees.

9. LEASE COMMITMENTS

Under lease obligations for office premises, the company and its subsidiaries are committed to minimum annual rentals (exclusive of taxes, insurance and other occupancy charges) as follows:

1971	\$292,300
1972	246,750
1973	206,864
1974	141,498
1975	40,278
1976	15,264



AGT DATA SYSTEMS LIMITED ...



At American Growth Fund, Ken McGahey, Fund Administrator, and Ian Shaw, Treasurer, examine the management reports from AGT's Mutual Fund Shareholder Accounting System.



This low-speed typewriter terminal at York County Board of Education is connected by telephone lines to the IBM System/360 Model 85 in Ottawa, bringing to the educators in York County a new dimension to fiscal accounting and control.



High-speed terminal at Manufacturers Life Insurance Company sending and receiving insurance policy data to the SDL Model 85 in Ottawa.

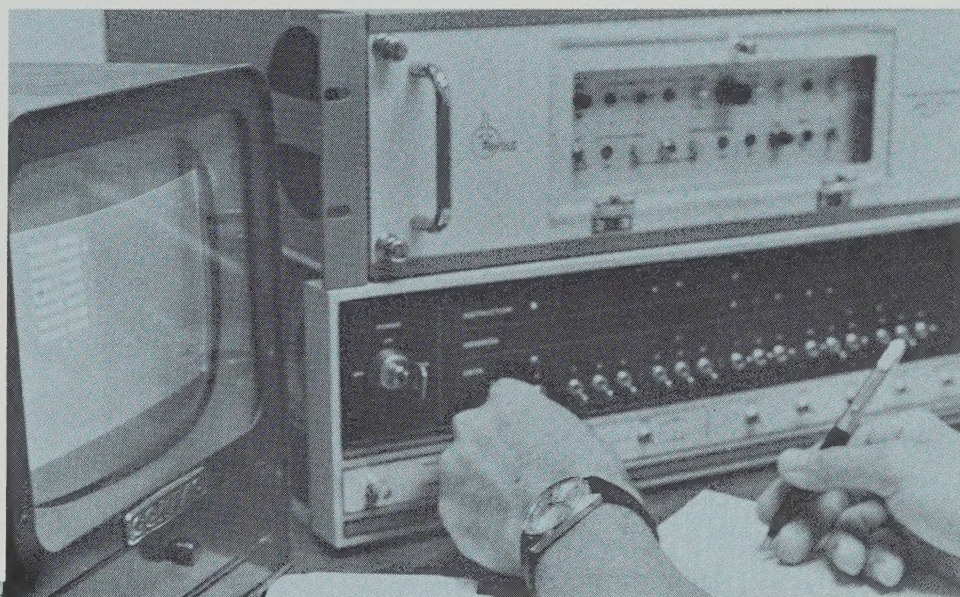


KEYDATA Stations similar to this are now installed in over 200 locations providing subscribers with complete on-line invoicing, inventory control, accounts receivable and accounts payable services.



This RUSCOM Graphic Record Digitizer installed in the Geography Department of York University, converts data of graphic nature to computer-readable form for land use analysis.

This computer automation system has been designed and programmed to automate audio and video switching for a Canadian network television station: just one of the many consulting, design and implementation services of DCF Systems.



AGT Data Security Services Division now stores in this maximum security vault a wide range of customer vital records that include magnetic tapes, magnetic disks, microfilm, videotapes, films and paper records.

...PEOPLE, IDEAS AND COMPUTERS

AR80



AGT DATA SYSTEMS LIMITED

TORONTO (HEAD OFFICE)
74 Victoria Street, Toronto 210, Ontario

MONTREAL
555 Dorchester Blvd. West, Montreal 128, Quebec

SEATTLE
15 Grady Way, Suite 309, Renton, Washington 98055

AGT
DATA SYSTEMS LIMITED

INTERIM REPORT

SIX MONTHS ENDED
DECEMBER 31, 1970

To Our Shareholders

The first six months of this fiscal year was a period of significant progress for AGT. New business growth continued the trend of the past year with revenue more than double that of the same period last year. All areas of the business contributed to this advance, with particular success being achieved in the divisions which were in their early stages a year ago.

At the same time, losses have been significantly reduced in line with our continued efforts to use our resources efficiently and become profitable. Our progress during this period is illustrated by the quarterly analysis shown below. Revenue increased 17% from the first quarter to the second quarter, with a total of \$2,494,000 for the six month period. Our operating loss declined from \$326,000 in the first quarter to \$141,000 in the second quarter.

	1970-1971		
	1st Quarter	2nd Quarter	1st Half
Revenue	\$1,149,000	\$1,345,000	\$2,494,000
Operating loss	326,000	141,000	467,000

With a continuation of the increase in revenue, we expect that all divisions will reach a profitable operating level by the end of the 1970-71 fiscal year.

We have noted a gradual improvement in the business environment and a strengthening in the demand for our services. A backlog of business to be installed has developed in several of the divisions which will demand a high level of technical activity during the spring and summer months.

The promise of the data services industry still remains. We believe that as a result of the establishment of a substantial presence in most of the significant areas of the industry, we will be in a strong position to actively participate in the growth of the Seventies.

Gerald A. Wanless
PRESIDENT

AGT DATA SYSTEMS LIMITED AND ITS SUBSIDIARIES

Consolidated Results

Six Months Ended December 31, 1970 and 1969

Consolidated Statement of Loss and Deficit (unaudited)	1970	1969
Revenue	\$2,493,702	\$1,205,785
Expenses	2,960,912	2,000,363
Operating loss	467,210	794,578
Other income	9,721	50,929
Loss before income taxes	457,489	743,649
Recovery of income taxes	—	7,134
Net loss for the period	457,489	736,515
Deficit at beginning of the period	4,271,019	560,762
Deficit at end of the period	\$4,728,508	\$1,297,277

Consolidated Statement of Source and Application of Funds (unaudited)	1970	1969
Source of funds:		
Issue of common stock	\$ 19,585	\$1,714,909
Reduction of long-term receivables	5,268	—
Proceeds from disposal of fixed assets	—	1,835
Total funds provided	24,853	1,716,744
Application of funds:		
Funds applied to operations	457,489	750,236
Add back depreciation and amortization	142,906	141,262
Net funds applied to operations	314,583	608,974
Excess of cost of shares of subsidiary over underlying net assets at date of acquisition	—	41,416
Additions to fixed assets	5,501	210,882
Deferred development costs	147,333	206,135
Increase in other assets	—	159,642
Reduction of long-term liability	—	1,200
Total funds applied	467,417	1,228,249
Increase (decrease) in working capital for the period	(442,564)	488,495
Working capital at beginning of the period	1,130,154	670,333
Working capital at end of the period	\$ 687,590	\$1,158,828